

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

MONOLITHIC POWER SYSTEMS, INC., a
Delaware corporation,

Plaintiff,

v.

TAIWAN SUMIDA ELECTRONICS, INC., a
Taiwan corporation,

Defendant.

TAIWAN SUMIDA ELECTRONICS, INC., a
Taiwan corporation,

Counterclaimant,

v.

MONOLITHIC POWER SYSTEMS, INC., a
Delaware corporation,

Counterclaim Defendant.

Defendant and Counterclaimant Taiwan Sumida Electronics, Inc.
(Sumida) moves for summary judgment on all claims asserted against
it and on all of its counterclaims. Plaintiff and Counterclaim
Defendant Monolithic Power Systems, Inc. (MPS) opposes the motion

No. C 05-3522 CW

ORDER GRANTING IN
PART TAIWAN
SUMIDA'S MOTION
FOR SUMMARY
JUDGMENT AND
GRANTING IN PART
MPS'S MOTION FOR
SUMMARY
ADJUDICATION AND
DENYING MPS'S
MOTION TO STAY
PROCEEDINGS

1 and cross-moves for summary adjudication that Sumida is barred, as
2 a matter of law, from recovering its lost profits and the
3 attorneys' fees it incurs in this case. The matter was heard on
4 April 20, 2007. Having considered all of the papers filed by the
5 parties, the evidence cited therein and oral argument, the Court
6 grants in part both motions.

7 BACKGROUND

8 MPS and O2 Micro International are competitors in the market
9 for inverter controller chips. Sumida purchases inverter
10 controller chips from MPS and O2 Micro. In late 2002, O2 Micro
11 warned Sumida that it was infringing O2 Micro's patents by using
12 MPS's inverter controller chips as components in Sumida's inverter
13 modules. Sumida asked MPS to protect it from any possible
14 infringement claims brought by O2 Micro against it. MPS sent
15 Sumida a proposed indemnification agreement, which MPS had drafted
16 and which its representative had already signed. There were no
17 negotiations over the proposed agreement and, on December 25, 2002,
18 MPS and Sumida entered into a written indemnification agreement.

19 The agreement is governed by California law and provides:

- 20 2. MPS and SUMIDA agree that MPS has the right to defend or
21 at its option to settle, and MPS agrees, at its own
22 expense, to defend or at its option to settle any claim,
23 suit or proceeding brought against SUMIDA alleging
24 infringement of any patent owned by O2 Micro
25 International Limited or O2 Micro, Inc. (collectively,
26 "Action") for the sale of any Product or any combination
27 including a Product wherein such infringement would not
28 occur but for such Product being a part of such
combination, subject to the limitations hereinafter set
forth. MPS shall have sole control of any such Action or
settlement negotiations, and MPS agrees to pay any and
all expenses, losses, damages, demands, liabilities and
expenses (including attorneys' fees and court costs), and
final judgment entered against SUMIDA, or settlement

1 amount agreed to by MPS, in any such Action, subject to
2 the limitations hereinafter set forth.

- 3 3. SUMIDA agrees to notify MPS promptly in writing of such
4 Action, gives MPS authority to proceed as contemplated
above, and gives MPS proper and full information and
assistance to defend and/or settle any such Action.

5 On January 6, 2003, O2 Micro filed a complaint in the United
6 States District Court for the Eastern District of Texas, alleging
7 that Sumida and its parent company infringed O2 Micro's '615 and
8 '722 patents. A few days later, MPS also sued Sumida and its
9 parent company in the Eastern District of Texas, alleging that they
10 infringed MPS's '814 and '881 patents.

11 In December, 2003, pursuant to the indemnification agreement,
12 MPS agreed to defend Sumida in the Texas action brought by O2
13 Micro. But, because of the conflict created by MPS's suit against
14 Sumida, MPS's counsel could not represent Sumida in the O2 Micro
15 action. MPS selected the law firm of Kenyon & Kenyon to represent
16 Sumida, replacing Sumida's chosen counsel, the law firm of Squire,
17 Sanders & Dempsey. Although Squire, Sanders & Dempsey remained of
18 record, Kenyon would be "responsible for and control the litigation
19 in accordance with MPS's rights under the indemnity agreement."
20 Meckes Dec., Ex. A at 61:9-12. Nonetheless, the engagement letter
21 made clear that Kenyon's client was Sumida and, therefore, although
22 MPS paid the invoices, Kenyon represented only the interest of
23 Sumida and its "duty of loyalty is to them only." Minton Dec.,
24 Ex. 44.

25 While MPS was defending Sumida in the Texas action, MPS was
26 also engaged in litigation with O2 Micro before this Court. The
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1 Northern California action¹ concerned MPS's '814 and '881 patents
2 and O2 Micro's '615 patent. Also at issue was whether MPS
3 misappropriated O2 Micro's trade secrets.

4 In April, 2004, Sumida and MPS entered into a Joint Defense
5 Agreement, which stated that MPS's and Sumida's interests were
6 aligned against the "O2 Claims" asserted in the Texas and Northern
7 California actions. Minton Dec., Ex. 4. The agreement defined "O2
8 Claims" as "the allegations asserted by O2 in the Suits that (1) O2
9 owns the O2 Asserted Patents; (2) the O2 Asserted Patents are
10 valid; and (3) the Parties have infringed, contributed to
11 infringement of, and/or actively induced others to infringe the O2
12 Asserted Patents." Id. The agreement did not address the trade
13 secret causes of action in the Northern California action or
14 mention the indemnity agreement. Further, it expressly provided
15 that, although the parties may exchange information necessary to
16 their defenses, nothing in the agreement "shall impose any
17 affirmative obligation on the part of any Party to share or
18 disclose any information"; nor did the agreement impose any
19 obligation "in any way to participate in or assist the other
20 Party." Id.

21 On July 22, 2004, MPS's attorney Michael Barclay sent an email
22 to Nathan Lane, one of Sumida's attorneys at Squire, Sanders,
23 informing him that, in the Northern California action, O2 Micro was
24 claiming as part of its trade secret a certain transformer sold by

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26 ¹Although the Northern California action consisted of two
27 cases, because those cases were consolidated for trial, the Court
28 refers to the litigation as the Northern California action. See C
00-4071 CW and C 01-3995 CW.

1 Sumida. Mr. Barclay noted that this issue was "independent of the
2 indemnity for the Texas suit, but is still one for which MPS would
3 appreciate Sumida's assistance." Meckes Dec., Ex. 13. He asked if
4 Sumida would "graciously provide" documentation showing the first
5 sales of the relevant transformers. Id. Mr. Barclay states that,
6 at that time, he had no interest in triggering a legal fight about
7 what was "legally required" by the "full information and
8 assistance" clause of the indemnity agreement by attempting to
9 coerce Sumida into providing the information. He further states
10 that he clearly communicated to Sumida's counsel that the alleged
11 transformer trade secret claim could have serious implications for
12 Sumida. Indeed, according to Mr. Barclay, before the trials in the
13 Northern California and Texas actions began, it had become apparent
14 that the alleged transformer trade secret was relevant to both
15 actions.

16 After the July 22, 2004 email, Mr. Barclay discussed the trade
17 secret claim over the telephone with Mr. Lane, who informed Mr.
18 Barclay that, while Sumida might be able to assist MPS informally,
19 it did not want to appear to be taking sides between its two
20 suppliers. When Mr. Lane asked if Sumida was "technically legally
21 required" to assist MPS, Mr. Barclay again responded that, although
22 Sumida was not "legally required to" assist MPS, it was in its best
23 interest to do so. Meckes Dec., Ex. A 94:23-95:5.

24 Sumida obtained a copy of a catalog of one of its sister
25 companies, which it gave to MPS and which was later admitted as
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1 evidence in the Northern California trial.² In order to get more
2 documents, however, MPS sought information related to Sumida's
3 transformers through formal legal channels in Taiwan, by use of
4 letters rogatory.³ Mr. Barclay sent drafts of the letters rogatory
5 to Sumida's counsel in the Texas action several weeks before they
6 were formally issued by the court. No one either at Squire,
7 Sanders or at Kenyon told MPS that there were any problems or
8 deficiencies with the letters rogatory. But, when the Taiwanese
9 district court asked Sumida to provide documents or testimony in
10 connection with the letters rogatory, Sumida stated that the
11 letters rogatory did not comply with Taiwanese law and argued that
12 it should not be required to provide any information or documents.
13 The Taiwanese district court did not order Sumida to produce the
14 requested information.

15 In January, 2005, Mr. Barclay sent Sumida's counsel, Ron Prass
16 at Kenyon, an email, requesting "Sumida's assistance, for both
17 Sumida's and MPS's benefit, to defend against the O2 Micro
18 patents." Meckes Dec., Ex. 22. At issue was whether earlier
19 versions of O2 Micro products had functioning "open lamp" or "over-
20 voltage" protection. O2 Micro claimed that it had solved this
21 protection problem earlier than MPS; MPS believed that it had
22 solved it first. Sumida states that, after reviewing this request,
23 it immediately began collecting documents that might be responsive

25 ²The catalog was relevant to the trade secret claims, not the
26 patent claims.

27 ³This information was also relevant to the trade secret
28 claims, not the patent claims.

1 to MPS's request. But, according to an email that Sumida's General
2 Office Manager sent to other two Sumida employees, "Naturally, if
3 such evidence does exist, it is obvious that the evidence will not
4 be favorable to O2. Therefore as for whether or not it should be
5 put forth, or how it should be put forth, we still need to ask
6 General Manager Wu to make a final decision before it can be
7 determined." Minton Dec., Ex. 14. Sumida gave to Mr. Prass
8 documents it believed were relevant to MPS's request. MPS claims
9 that it never received these documents and that, although they were
10 relevant, Kenyon did not use the documents in Sumida's defense.
11 According to Mr. Barclay, the documents would have been helpful
12 both in defending against the trade secret claims in California and
13 also in strengthening a key invalidity defense in the Texas action.

14 That same month, MPS's general counsel sent an email to Sumida
15 noting that "MPS needs to see Sumida demonstrating its commitment
16 to the Joint Defense Agreement between the parties by cooperating,
17 collecting and sharing the evidentiary information in both
18 parties' common interest. We are concerned about the pace and
19 responsiveness to our recent requests." Minton Dec., Ex. 46. The
20 email did not mention the indemnity agreement.

21 In April, 2005, O2 Micro, MPS and Sumida participated in a
22 joint mediation in Texas to try to settle all of the pending
23 actions. No settlement was reached. Around this time, MPS's
24 general counsel permitted a Sumida officer to discuss with O2 Micro
25 a possible settlement. That permission, however, was based on four
26 conditions, including that Sumida had to tell O2 Micro that MPS had
27 to approve the terms of any settlement and that there was to be "no
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1 admission of anything by any party." Minton Dec., Ex. 32. The
2 Sumida officer sent an email to Joe Lin at O2 Micro, informing him
3 that "many Sumida employees have been, and will be, contributing a
4 significant amount of relevant info and data to MPS for the
5 upcoming trial and retrials anticipated after appeals." Minton
6 Dec., Ex. 33. But, according to the Sumida officer, he could stop
7 that effort, exit the MPS Joint Defense Agreement and "return to
8 the neutral corner (or even align with your side)." Id. Again,
9 however, no settlement was reached.

10 A few months later, the Northern California action went to
11 trial. The issues in that trial were whether MPS had stolen O2
12 Micro's trade secrets, whether O2 Micro infringed MPS's patents and
13 whether MPS's patents were invalid. O2 Micro's '615 patent was no
14 longer at issue; the Court had granted summary judgment of non-
15 infringement in MPS's favor. After an eleven-day trial, the jury
16 decided against MPS, finding that MPS had stolen various O2 Micro
17 trade secrets, including the trade secret concerning Sumida's
18 transformer.

19 After the trial, MPS became concerned that Kenyon was not "up
20 to the task" of defending Sumida in the Texas action. Meckes Dec.,
21 Ex. B at 233:3-6. It never, however, expressed its concerns to
22 Kenyon or Sumida. Mr. Barclay, however, did advise Kenyon that
23 Sumida should assert a best mode defense to O2 Micro's patent
24 infringement claims. Sumida did not. Nor did Sumida, despite
25 MPS's urging, present a defense in the Texas action based upon
26 MPS's '814 patent, which MPS believed was prior art to the O2 Micro
27 patents. According to MPS, not only did Sumida not listen to its
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1 strategic advice, but Sumida failed to keep MPS "in the loop" and
2 failed to allow MPS to control the litigation. Minton Dec., Ex.
3 45, 228-230. Nonetheless, according to Mr. Prass at Kenyon, Sumida
4 "did its best to defend against O2 Micro's claims in the Texas
5 Action." Prass Dec., ¶ 4.

6 On August 3, 2005, Mr. Barclay sent an email to Sumida's
7 counsel at Squire, Sanders and at Kenyon, requesting declarations
8 from Sumida to use in MPS's opposition to O2 Micro's motion for an
9 injunction in the Northern California action. After advising
10 Sumida that it had a business interest in working with MPS to
11 defeat the entry of an injunction, Mr. Barclay stated for the first
12 time that Sumida had a legal obligation to assist MPS pursuant to
13 paragraph 3 of the indemnity agreement, even though the
14 declarations related to O2 Micro's trade secret claims, not its
15 patent claims. In an email sent less than a week later, MPS's
16 attorney Jamie DiBoise informed Sumida that the requested
17 declarations were "really the bare minimum necessary to assist MPS
18 in defending the Sumida Texas action." Meckes Dec., Ex. 31.
19 Further, if Sumida refused to provide the declarations requested,
20 MPS would "consider it a breach of the Indemnification Agreement,
21 and terminate that agreement, as we cannot be in a position of
22 being subject to indemnity obligations while at the same time
23 having Sumida fail to provide assistance and compromise its
24 position in the Texas action." Id. Three days after MPS's imposed
25 deadline, Sumida sent a declaration to MPS.

26 On August 30, 2005, three weeks before trial in Texas was
27 scheduled to begin, MPS terminated its indemnification agreement
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1 with Sumida. According to MPS, Sumida's failure to provide
2 information and assistance prevented MPS from exercising "control,"
3 as provided by section 2 of the agreement; Sumida's failure to
4 provide the requested "proper and full information and assistance"
5 to defend the Texas action, as section 3 of the agreement required,
6 was another serious breach and, thus, MPS had "no choice" but to
7 terminate the indemnity agreement. Meckes Dec., Ex. 33. Mr. Prass
8 states that he does not recall that, prior to the termination,
9 anyone either from or representing MPS ever informed him that
10 Sumida or Kenyon had acted in a way that might compromise Sumida's
11 obligations under the Indemnification Agreement between MPS and
12 Sumida.

13 The day after terminating the indemnification agreement, MPS
14 filed the present law suit against Sumida for breach of contract
15 and breach of the covenant of good faith and fair dealing.

16 On November 14, 2005, the trial in Texas began. On
17 November 17, 2005, the jury returned a verdict that Sumida had
18 induced and/or contributed to the infringement of O2 Micro's '722
19 patent, that the infringement was willful and that the asserted
20 claims were not invalid. Sumida and O2 Micro had stipulated
21 immediately before the trial that, if O2 Micro prevailed, actual
22 damages would be set at two million dollars, with enhanced damages,
23 if any, capped at two million dollars and attorneys' fees capped at
24 three million dollars. In April, 2006, the court in Texas entered
25 judgment against Sumida in the amount of four million dollars and
26 granted a permanent injunction. It later awarded O2 Micro

1 attorneys' fees in the amount of \$2,725,689.46 and costs of
2 \$93,931.53.

3 Sumida then countersued MPS in this Court, seeking to recover
4 the money it owed O2 Micro, attorneys' fees and lost profits.
5 Sumida argues that, under the indemnification agreement, its duty
6 to provide MPS with "full information and assistance to defend
7 and/or settle" did not extend to information relevant only to the
8 Northern California litigation between MPS and O2 Micro; it
9 contends that it was MPS that breached the indemnity agreement and
10 the covenant of good faith and fair dealing.

11 LEGAL STANDARD

12 Summary judgment is properly granted when no genuine and
13 disputed issues of material fact remain, and when, viewing the
14 evidence most favorably to the non-moving party, the movant is
15 clearly entitled to prevail as a matter of law. Fed. R. Civ.
16 P. 56; Celotex Corp. v. Catrett, 477 U.S. 317, 322-23 (1986);
17 Eisenberg v. Ins. Co. of N. Am., 815 F.2d 1285, 1288-89 (9th Cir.
18 1987).

19 The moving party bears the burden of showing that there is no
20 material factual dispute. Therefore, the court must regard as true
21 the opposing party's evidence, if supported by affidavits or other
22 evidentiary material. Celotex, 477 U.S. at 324; Eisenberg, 815
23 F.2d at 1289. The court must draw all reasonable inferences in
24 favor of the party against whom summary judgment is sought.
25 Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574,
26 587 (1986); Intel Corp. v. Hartford Accident & Indem. Co., 952 F.2d
27 1551, 1558 (9th Cir. 1991).

1 Material facts which would preclude entry of summary judgment
2 are those which, under applicable substantive law, may affect the
3 outcome of the case. The substantive law will identify which facts
4 are material. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248
5 (1986).

6 Where the moving party does not bear the burden of proof on an
7 issue at trial, the moving party may discharge its burden of
8 production by either of two methods. Nissan Fire & Marine Ins.
9 Co., Ltd., v. Fritz Cos., Inc., 210 F.3d 1099, 1106 (9th Cir.
10 2000).

11 The moving party may produce evidence negating an
12 essential element of the nonmoving party's case, or,
13 after suitable discovery, the moving party may show that
14 the nonmoving party does not have enough evidence of an
15 essential element of its claim or defense to carry its
16 ultimate burden of persuasion at trial.

17 Id.

18 If the moving party discharges its burden by showing an
19 absence of evidence to support an essential element of a claim or
20 defense, it is not required to produce evidence showing the absence
21 of a material fact on such issues, or to support its motion with
22 evidence negating the non-moving party's claim. Id.; see also
23 Lujan v. Nat'l Wildlife Fed'n, 497 U.S. 871, 885 (1990); Bhan v.
24 NME Hosps., Inc., 929 F.2d 1404, 1409 (9th Cir. 1991). If the
25 moving party shows an absence of evidence to support the non-moving
26 party's case, the burden then shifts to the non-moving party to
27 produce "specific evidence, through affidavits or admissible
28 discovery material, to show that the dispute exists." Bhan, 929
F.2d at 1409.

1 If the moving party discharges its burden by negating an
2 essential element of the non-moving party's claim or defense, it
3 must produce affirmative evidence of such negation. Nissan, 210
4 F.3d at 1105. If the moving party produces such evidence, the
5 burden then shifts to the non-moving party to produce specific
6 evidence to show that a dispute of material fact exists. Id.

7 If the moving party does not meet its initial burden of
8 production by either method, the non-moving party is under no
9 obligation to offer any evidence in support of its opposition. Id.
10 This is true even though the non-moving party bears the ultimate
11 burden of persuasion at trial. Id. at 1107.

12 Where the moving party bears the burden of proof on an issue
13 at trial, it must, in order to discharge its burden of showing that
14 no genuine issue of material fact remains, make a prima facie
15 showing in support of its position on that issue. UA Local 343 v.
16 Nor-Cal Plumbing, Inc., 48 F.3d 1465, 1471 (9th Cir. 1994). That
17 is, the moving party must present evidence that, if uncontroverted
18 at trial, would entitle it to prevail on that issue. Id.; see also
19 Int'l Shortstop, Inc. v. Rally's, Inc., 939 F.2d 1257, 1264-65 (5th
20 Cir. 1991). Once it has done so, the non-moving party must set
21 forth specific facts controverting the moving party's prima facie
22 case. UA Local 343, 48 F.3d at 1471. The non-moving party's
23 "burden of contradicting [the moving party's] evidence is not
24 negligible." Id. This standard does not change merely because
25 resolution of the relevant issue is "highly fact specific." Id.

26 DISCUSSION

27 Each party alleges that the other breached the indemnification
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1 agreement and the covenant of good faith and fair dealing. As
2 noted above, Sumida moves for summary judgment in its favor on
3 MPS's claims and its counterclaims. MPS moves for summary
4 adjudication that Sumida cannot recover lost profits or the
5 attorneys' fees it incurs in this case.

6 I. Sumida's Motion for Summary Judgement

7 A. MPS's Breach of Contract Claim

8 To prevail on a breach of contract claim, a plaintiff must
9 establish four elements: "(1) the existence of a valid contract;
10 (2) the plaintiff's performance or excuse for nonperformance;
11 (3) the defendant's unjustified or unexcused failure to perform;
12 and (4) damage to the plaintiff." Lincoln Nat. Corp. v. TakeCare,
13 Inc., 1998 WL 281290, *3 (N.D. Cal.) (quoting 4 Witkin, California
14 Procedure, § 476 (4th ed.)); see also First Commercial Mortgage Co
15 v. Reece, 89 Cal. App. 4th 731, 745 (2001). There is no dispute
16 that the indemnity agreement is a valid, enforceable contract.

17 Sumida contends that MPS also bears the burden of proving that
18 any breach of the cooperation clause resulted in "substantial
19 prejudice" to MPS. Sumida need not rely on its "substantial
20 prejudice" argument for the Court to award summary judgment in its
21 favor on MPS's claims, nor need the Court address it.

22 As Sumida points out, there is no evidence that it failed to
23 cooperate fully in the defense of the Texas action or that it
24 failed to provide information that was requested for use in the
25 Texas action. To the contrary, there is evidence that Sumida spent
26 hundreds, if not thousands, of hours retrieving information
27 requested by Kenyon; it produced over one million pages of
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1 documents and brought multiple witnesses to the United States for
2 depositions and trials. Sumida points to Mr. Prass's declaration,
3 stating that Sumida was cooperative in providing information and
4 assistance in defense of the Texas action; indeed, as noted above,
5 it "did its best to defend against O2 Micro's claims in the Texas
6 action." Prass Dec., ¶ 3. It emphasizes that MPS never informed
7 it that keeping MPS's representative "in the loop" was a condition
8 of indemnification. Nor did MPS inform Sumida that it had a legal
9 obligation to give MPS any requested information or that its
10 failure to do so would be a breach of the agreement, until after
11 MPS lost in the Northern California action which was shortly before
12 it terminated the agreement. Up until the month that MPS
13 terminated the agreement, it expressly stated to the contrary.

14 MPS attempts to create triable issues of fact. It contends
15 that Sumida did not give it information it requested concerning
16 over-voltage protection, information allegedly relevant to both the
17 Texas and Northern California actions. The evidence shows that
18 Sumida gave the over-voltage protection materials to Kenyon,
19 Sumida's counsel appointed by MPS. That Mr. Prass then chose not
20 to use those materials at trial, informed MPS that the documents
21 were not useful and never gave them to MPS does not show that
22 Sumida failed to provide full information and assistance to defend
23 and/or settle the Texas action.

24 Mr. Prass's failure to provide the over-voltage protection
25 documents to MPS for use in the Northern California action could
26 establish a triable issue of fact only if Sumida's obligation to
27 give MPS "full information and assistance" is interpreted to

1 require Sumida to provide any information and assistance requested
2 by MPS if doing so might give MPS some possible advantage in
3 settling the Texas action, even if that information is only useful
4 in the Northern California action.

5 The term "full information and assistance to defend and/or
6 settle any such Action" is not clearly defined. As the Court
7 previously noted, it is a broad obligation, the scope of which is
8 not specifically constrained and is disputed by the parties.
9 Nonetheless, the cooperation clause, as a matter of law, is not as
10 broad as MPS claims it to be.

11 In interpreting a contract, the Court may consider the
12 subsequent acts and conduct of the parties in the execution of the
13 contract in order to determine the intent of those parties. Cal.
14 Code Civ. P. § 1856(c). The Ninth Circuit instructs, "The
15 construction given the contract by the acts and conduct of the
16 parties with knowledge of its terms, before any controversy has
17 arisen as to its meaning, is entitled to great weight and will,
18 when reasonable, be adopted and enforced by the court." U.S.
19 Cellular Inv. Co. v. GTE Mobilnet, Inc., 281 F.3d 929, 937 (9th
20 Cir. 2002) (quoting Warner Constr. Corp. v. City of Los Angeles, 2
21 Cal. 3d 285, 296-97 (1970)). MPS's assurances to Sumida that it
22 was not legally required to give MPS information relating to the
23 trade secret claims show that the parties did not intend for the
24 cooperation clause to be read so broadly. Another example of the
25 parties' conduct belying MPS's interpretation of the cooperation
26 clause is the Joint Defense Agreement, which did not list the trade
27 secret claims as a "common interest." The only common interests
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1 identified were those that involved O2 Micro's allegations of
2 infringement against Sumida and MPS.

3 MPS provides no extrinsic evidence to support its broad
4 reading of the contract. That the parties believed the Texas and
5 Northern California actions to be "interrelated" does not establish
6 a material dispute of fact. Rather, this supports Sumida's
7 interpretation of the contract. Even though Mr. Barclay thought
8 that the cases were "related," he told Mr. Lane that Sumida had no
9 legal obligation to provide any materials concerning the trade
10 secret claims. Nor does the fact that O2 Micro wanted a global
11 settlement create a material dispute of fact or support MPS's
12 interpretation of the cooperation clause. Again, although MPS was
13 aware of this, it never told Sumida that it was required to provide
14 information regarding the trade secret claims that arguably could
15 help MPS reach a global settlement, until shortly before MPS
16 terminated the agreement.

17 MPS' broad reading of Sumida's obligations under the indemnity
18 agreement is not supported by the law or the facts. Thus, whether
19 Sumida failed to assist MPS with trade secret information, useful
20 only in the Northern California action, and provide MPS with over-
21 voltage protection information, useful only in the Northern
22 California action, does not constitute a dispute concerning whether
23 Sumida fulfilled its obligations under the indemnity agreement.
24 Sumida was not required to provide information to MPS that was
25 useful only to the Northern California action. Thus, the Court
26 finds that there are no material disputes of fact and that MPS
27 cannot prove its claim that Sumida failed to cooperate as required
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1 under the indemnity agreement or that it prevented MPS from
2 controlling the Texas action; therefore, the Court grants summary
3 judgment in Sumida's favor that MPS's claims against it fail.

4 B. Sumida's Counterclaims

5 Sumida states that, if the Court finds that MPS's claims fail,
6 then, "as a necessary corollary," the Court should rule that MPS's
7 termination of the indemnification agreement was not justified and
8 grant Sumida summary judgment on its counterclaims, including its
9 claim for breach of the covenant of good faith and fair dealing.

10 MPS responds that there are factual disputes surrounding Sumida's
11 failure to provide the information and assistance to which MPS was
12 entitled. As discussed above, however, the Court did not find any
13 material disputes of fact. Nonetheless, although the Court finds
14 that MPS breached the indemnification agreement, it does not find
15 that, as a matter of law, it breached the implied covenant of good
16 faith and fair dealing by terminating the indemnity agreement. One
17 can breach a contract without breaching the implied covenant of
18 good faith and fair dealing. Although Sumida has presented
19 evidence that, if uncontroverted at trial, would entitle it to
20 prevail on its claim for breach of the covenant of good faith and
21 fair dealing, MPS has set forth facts controverting Sumida's prima
22 facie case and suggesting that it did not terminate the indemnity
23 agreement in bad faith. See UA Local 343, 48 F.3d at 1471.

24 Therefore, the Court denies Sumida summary judgment on this claim.

25 II. MPS's Motion for Summary Adjudication

26 A. Lost Profits

27 The agreement provides that MPS will "pay any and all
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1 expenses, losses, damages, demands, liabilities and expenses
2 (including attorneys' fees and court costs), and final judgment
3 entered against SUMIDA, or settlement amount agreed to by MPS in
4 any such Action." Sumida contends that the losses include the
5 \$ 1.61 million it suffered as business losses as a result of the
6 verdict and injunction against it in the Texas action. See Fern
7 Dec., Ex. 1. MPS responds that, even if Sumida is able to
8 demonstrate liability, it is barred as a matter of law from
9 recovering the profits it claims it lost as a result of losing the
10 Texas action, arguing that the term "losses" in the indemnification
11 agreement does not encompass lost profits.

12 California Civil Code section 2778(2) provides that, "unless a
13 contrary intention appears" in the agreement, "under an indemnity
14 against claims, or demands, or damages, or costs, expressly, or in
15 other equivalent terms, the person indemnified is not entitled to
16 recover without payment thereof." MPS contends that, because lost
17 profits are never actually paid by an indemnitee and because there
18 is no "contrary intention" in the agreement, section 2778(2)
19 precludes recovery of Sumida's lost profits. It notes that an
20 email from a Sumida officer to MPS's general counsel acknowledges
21 that "the current Indemnification Agreement does not cover any lost
22 sales nor profit." Minton Dec., Ex. 47.

23 Sumida responds that MPS's reliance on this section is
24 misguided and that there is no basis for excluding from the term
25 "losses" those losses that it actually suffered, but did not "pay-
26 out-of-pocket." The Court finds that MPS's reliance on section
27 2278(2) is not misguided. Sumida's business losses are not an
28

1 actual loss that Sumida paid or for which it is liable to O2 Micro.
2 As MPS notes, Sumida does not argue that its business losses are a
3 "liability."

4 The Court grants summary adjudication in MPS's favor that
5 Sumida is barred, as a matter of law, from recovering its alleged
6 business losses.

7 B. Attorneys' Fees

8 MPS further contends that Sumida is barred as a matter of law
9 from recovering the attorneys' fees it incurs in this case. It
10 relies on California appellate cases holding that, unlike a stand-
11 alone attorneys' fees provision in a contract that calls for
12 recovery of fees on an action to enforce the contract itself, a
13 provision including attorneys' fees as an item of loss in an
14 indemnity clause does not qualify as a provision for attorneys'
15 fees in an action to enforce the contract. See, e.g., Campbell v.
16 Scripps Bank, 78 Cal. App. 4th 1328, 1337 (2000). In making this
17 argument, MPS ignores relevant authority: it does not address
18 DeWitt v. W. Pac. R.R. Co., 719 F.2d 1448, 1453 (9th Cir. 1983), the
19 Ninth Circuit case cited by Sumida in its motion for summary
20 judgment, nor does it cite Jones-Hamilton Co. v. Beazer Materials &
21 Services, Inc., 973 F.2d 688 (1992).⁴

22 In DeWitt, the Ninth Circuit, acknowledging there was a split
23 in California authority, interpreted California law to permit an
24 aggrieved indemnitee to collect its attorneys' fees in an action to
25 enforce the indemnification agreement. Approximately a decade

26
27 ⁴Nor does Sumida cite Jones-Hamilton Co., a case which remains
28 good law and which is binding on this Court.

1 later, in Jones-Hamilton Co., the defendant requested that the
2 Ninth Circuit "reevaluate" its holding in DeWitt based on
3 California appellate cases decided after Dewitt. The court
4 refused. It explained that "DeWitt's interpretation of California
5 law is 'binding in the absence of any subsequent indication from
6 the California courts that our interpretation was incorrect.'" 973
7 F.2d at 696 n.4 (quoting Owen v. United States, 713 F.2d 1461, 1464
8 (9th Cir. 1983)). The additional intermediate appellate court
9 decisions "on one side of a clear split" cited by the defendants
10 did not indicate that the Ninth Circuit's past interpretation of
11 California law was incorrect and, thus, did not provide cause for
12 the court to revisit its holding in DeWitt. Id.

13 Similarly here, the additional intermediate appellate cases
14 MPS cites do "not provide the kind of indication" that the Ninth
15 Circuit's "past interpretation of California law was incorrect."
16 Id. Absent any ruling from the California Supreme Court or the
17 Ninth Circuit on this issue, the Court is bound to follow DeWitt
18 and Jones-Hamilton Co., rather than the intermediate appellate
19 cases cited by MPS. Therefore, the Court denies MPS's motion for
20 summary adjudication on this ground.

21 CONCLUSION

22 For the foregoing reasons, the Court GRANTS IN PART Sumida's
23 motion for summary judgment (Docket No. 51) and DENIES it IN PART.⁵

24
25 ⁵ Sumida's Request for Judicial Notice (Docket No. 60) is
26 GRANTED. Sumida's Supplemental Request for Judicial Notice (Docket
27 No. 81) is also GRANTED. Further, Sumida's objections to evidence
submitted by MPS are overruled as moot. The Court did not consider
any improper or inadmissible evidence in deciding these motions.

1 The Court grants summary judgment in favor of Sumida on all claims
2 in MPS's complaint and grants summary judgment in favor of Sumida
3 on the third claim in its counter-complaint for breach of contract.
4 In addition, pursuant to Sumida's first claim for declaratory
5 relief, the Court determines that Sumida did not breach the
6 indemnification agreement. Pursuant to Sumida's second claim for
7 declaratory relief, the Court determines that MPS owes Sumida a
8 continuing obligation under the indemnification agreement "to pay
9 all expenses, losses, damages, liabilities and expenses" in the
10 Texas action; thus, MPS is ordered to pay or otherwise satisfy any
11 final judgment, including interest and costs, entered against
12 Sumida in the Texas action, as well as the attorneys' fees incurred
13 in the defense and appeal of the Texas action. The Court, however,
14 denies Sumida summary judgment in its favor on its fourth
15 counterclaim for breach of good faith and fair dealing.

16 MPS's motion for summary adjudication (Docket No. 69) is
17 GRANTED IN PART AND DENIED IN PART. Although Sumida is barred, as
18 a matter of law, from recovering its alleged business losses, it
19 may recover the attorneys' fees it incurs in this case.⁶

20 The parties shall schedule another private mediation session
21 with the Honorable Edward A. Infante (ret.). The pretrial
22

23 ⁶While these motion were pending, MPS filed a motion to stay
24 proceedings; Sumida opposed the motion. The matter was submitted
25 on the papers. The power to stay proceedings is within the sound
26 discretion of the district court, and is incidental to the power
27 inherent in every court to control the disposition of the causes on
its docket with economy of time and effort for itself, for counsel
and for litigants. Landis v. N. Am. Co., 299 U.S. 248, 254 (1936).
Having considered the parties' papers and good cause not appearing,
the Court DENIES MPS' Motion to Stay Proceedings (Docket No. 101).

conference is currently set for August 7, 2007 and a four day jury trial is scheduled to begin on August 13, 2007.

IT IS SO ORDERED.

Dated: 6/25/07



CLAUDIA WILKEN
United States District Judge